

**Tennessee Board of Regents  
Volunteer State Community College**

**For the Years Ended  
June 30, 1998, and June 30, 1997**

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Editor

March 15, 1999

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Dr. Hal R. Ramer, President

Volunteer State Community College

1480 Nashville Pike

Gallatin, Tennessee 37066

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College, for the years ended June 30, 1998, and June 30, 1997. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan

Comptroller of the Treasury

JGM/ms

99/028

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Volunteer State Community College**  
For the Years Ended June 30, 1998, and June 30, 1997

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDING

### **Delinquent accounts not promptly referred to collection agencies**

Delinquent accounts receivable were not referred to collection agencies within a reasonable period of time (page 7).

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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**Audit Report**  
**Tennessee Board of Regents**  
**Volunteer State Community College**  
**For the Years Ended June 30, 1998, and June 30, 1997**

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**Tennessee Board of Regents  
Volunteer State Community College  
For the Years Ended June 30, 1998, and June 30, 1997**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**BACKGROUND**

Volunteer State Community College was approved by the State Board of Education as one of Tennessee’s ten community colleges in 1969. The college moved to its present 100-acre campus in 1972. In June 1973, Volunteer State Community College graduated its first class.

In January 1984, Volunteer State Community College became the lead institution for Tennessee Technology Center at Hartsville and Tennessee Technology Center at Livingston. Under the lead institution agreement, Volunteer State Community College performs the accounting and reporting functions for these centers.

The college currently offers the Associate of Arts Degree, the Associate of Science Degree, and the Associate of Applied Science Degree.

**ORGANIZATION**

The governance of Volunteer State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

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## **AUDIT SCOPE**

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The audit was limited to the period July 1, 1996, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards, except as indicated in the Independent Auditor's Report. Financial statements are presented for the years ended June 30, 1998, and June 30, 1997. Volunteer State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## **OBJECTIVES OF THE AUDIT**

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The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
  2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
  3. to determine the fairness of the presentation of the financial statements; and
  4. to recommend appropriate actions to correct any deficiencies.
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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.



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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 1998, and June 30, 1997, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. A reportable condition, along with a recommendation and management's response, are detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered a qualified opinion on the college's financial statements. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the college's disclosures with respect to the Year 2000 issue made in Note 13.

**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

February 9, 1999

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Volunteer State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1998, and June 30, 1997, and have issued our report thereon dated February 9, 1999. Our report was qualified. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the college's disclosures with respect to the Year 2000 issue made in Note 13.

Except as discussed in the preceding paragraph, we conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

The Honorable John G. Morgan  
February 9, 1999  
Page Two

audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain other less significant instances of noncompliance, which we have reported to the college's management in a separate letter.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the college's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- Delinquent accounts receivable were not promptly referred to collection agencies.

This condition is described in the Finding and Recommendation section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

The Honorable John G. Morgan  
February 9, 1999  
Page Three

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ms

## **FINDING AND RECOMMENDATION**

### **Delinquent accounts receivable should be promptly referred to collection agencies**

#### **Finding**

Delinquent accounts receivable were not referred to collection agencies within a reasonable period of time. Four of 19 accounts sampled (21%) had not been referred to a collection agency, and all four accounts were more than seven months delinquent. Thirteen of the 19 accounts sampled (68%) were referred to a collection agency, but not within a reasonable period of time. The earliest was referred six months after becoming delinquent, and one was referred 26 months after becoming delinquent. Tennessee Board of Regents Guideline B-010 states that three billings are to be sent at 30-day intervals once an account becomes delinquent. The third billing is to indicate that the unpaid amount will be referred to a collection agency or the Office of the General Counsel if the account is between \$25 and \$100. Actual referral to a collection agency is recommended 30 days after the third collection letter is sent if the debtor has not responded and the account is greater than \$100.

The probability of collection is greatly reduced if collection efforts, including referrals, are not initiated promptly.

#### **Recommendation**

Management should improve the collection process to ensure collection efforts for all accounts are timely. Billings should continue to be sent monthly, but the third such billing should include a statement that the account will be sent to a collection agency or to the Office of the General Counsel if not paid. If the college does not receive a response, the account should be submitted to a collection agency within 30 days after the third billing. Top management should frequently monitor the activities of the employees carrying out the accounts receivable collection duties to ensure adherence to established policies and procedures.

#### **Management's Comment**

We concur with the finding. A detailed review of all collection processes will be conducted and appropriate corrective action taken to ensure that all delinquent accounts are referred to collection agencies in a timely manner. The review will be completed and corrective action taken by June 30, 1999. Effective July 1, 1998 we had divided some of the accounts receivable functions between two staff members to help with the workload in the receivables area. Management will frequently monitor the activities of employees carrying out the collection duties to ensure adherence to established policies and procedures.

## **Independent Auditor's Report**

February 9, 1999

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of Volunteer State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the Year 2000 issue. The college has included such disclosures in Note 13. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the college's disclosures with respect to the Year 2000 issue made in Note 13.

The Honorable John G. Morgan  
February 9, 1999  
Page Two

Further, we do not provide assurance that the college is or will be Year-2000 ready, that the college's Year-2000 remediation efforts will be successful in whole or in part, or that parties with which the college does business will be Year-2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding Year-2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Volunteer State Community College, as of June 30, 1998, and June 30, 1997, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 12 to the financial statements, the college implemented GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 11, the college changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 1999, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ms

TENNESSEE BOARD OF REGENTS  
VOLUNTEER STATE COMMUNITY COLLEGE  
BALANCE SHEETS  
JUNE 30, 1998, AND JUNE 30, 1997

	<u>June 30, 1998</u>	<u>June 30, 1997</u>		<u>June 30, 1998</u>	<u>June 30, 1997</u>
<b>ASSETS</b>			<b>LIABILITIES AND FUND BALANCES</b>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash (Notes 2 and 3)	\$ 2,462,273.15	\$ 2,270,786.98	Liabilities:		
Accrued interest receivable	636.10	641.98	Accounts payable	\$ 213,926.46	\$ 103,155.73
Accounts receivable (net of allowance			Accrued liabilities	562,395.99	522,254.95
of \$124,085.41 at June 30, 1998, and			Deferred revenue	732,951.50	671,082.30
\$61,618.53 at June 30, 1997)	347,861.52	182,474.06	Checks payable	313,582.36	169,396.96
Inventories	3,918.96	4,884.88	Compensated absences	799,685.01	733,687.88
Prepaid expenses	9,149.96	608.95	Other liabilities	3,193.87	2,251.23
Due from restricted current funds	142,339.66	-	Total liabilities	2,625,735.19	2,201,829.05
Other assets	6,694.57	5,054.85			
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	224,707.40	77,162.41
			Allocation for encumbrances	397,994.99	100,919.21
			Allocation for designated appropriations	-	2,530.23
			Discretionary allocations:		
			Allocation for subsequent budget	440,400.00	361,500.00
			Allocation for athletic contingency	2,165.68	2,227.07
			Allocation for student activity fees	4,485.39	5,668.20
			Allocation for technology fees	9,570.10	13,617.62
			Allocation for compensated absences	(799,685.01)	(733,687.88)
			Unallocated	67,500.18	432,685.79
			Total fund balances	347,138.73	262,622.65
Total general	2,972,873.92	2,464,451.70	Total general	2,972,873.92	2,464,451.70
Auxiliary enterprises:			Auxiliary enterprises:		
Cash (Notes 2 and 3)	454,866.30	264,963.83	Liabilities:		
Accounts receivable (net of allowance			Accounts payable	5,055.26	3,545.15
of \$7,056.35 at June 30, 1998, and			Accrued liabilities	3,076.05	2,429.00
\$6,504.10 at June 30, 1997)	85,153.40	86,498.39	Student deposits	100.00	100.00
Inventories	377,976.70	343,552.62	Compensated absences	17,191.76	15,158.83
Prepaid expenses	1,107.33	-	Total liabilities	25,423.07	21,232.98
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	466,637.43	432,451.01
			Allocation for encumbrances	27,646.60	67,414.09
			Discretionary allocations:		
			Allocation for contingencies	105,767.54	98,746.47
			Allocation for compensated absences	(17,191.76)	(15,158.83)
			Unallocated	310,820.85	90,329.12
			Total fund balances	893,680.66	673,781.86
Total auxiliary enterprises	919,103.73	695,014.84	Total auxiliary enterprises	919,103.73	695,014.84
Total unrestricted	3,891,977.65	3,159,466.54	Total unrestricted	3,891,977.65	3,159,466.54
Restricted:			Restricted:		
Cash (Notes 2 and 3)	-	214,725.96	Liabilities:		
Grants receivable	285,214.66	26,952.23	Accounts payable	47,513.43	33,824.90
			Accrued liabilities	2,030.62	1,613.95
			Due to unrestricted current funds	142,339.66	-
			Total liabilities	191,883.71	35,438.85
			Fund balances	93,330.95	206,239.34
Total restricted	285,214.66	241,678.19	Total restricted	285,214.66	241,678.19
Total current funds	\$ 4,177,192.31	\$ 3,401,144.73	Total current funds	\$ 4,177,192.31	\$ 3,401,144.73



TENNESSEE BOARD OF REGENTS  
VOLUNTEER STATE COMMUNITY COLLEGE  
BALANCE SHEETS  
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998	June 30, 1997		June 30, 1998	June 30, 1997
Loan funds:			Loan funds:		
Cash (Notes 2 and 3)	\$ 544.24	\$ 4,560.75	Liabilities:		
			Accounts payable	\$ 100.00	\$ 100.00
			Fund balances:		
			U.S. government grants refundable	293.50	3,908.36
			Institutional funds:		
			Restricted-matching	32.61	434.26
			Restricted-other	118.13	118.13
			Total fund balances	444.24	4,460.75
Total loan funds	\$ 544.24	\$ 4,560.75	Total loan funds	\$ 544.24	\$ 4,560.75
Endowment and similar funds:			Endowment and similar funds:		
Cash (Notes 2 and 3)	\$ 78,171.49	\$ 74,889.86	Fund balance:		
			Endowment	\$ 78,171.49	\$ 74,889.86
Total endowment and similar funds	\$ 78,171.49	\$ 74,889.86	Total endowment and similar funds	\$ 78,171.49	\$ 74,889.86
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash (Notes 2 and 3)	\$ 2,082,833.57	\$ 2,506,800.20	Liabilities:		
LGIP deposit - capital project	632,832.41	-	Accounts payable	\$ 10,206.96	\$ -
			Fund balance:		
			Unrestricted	2,705,459.02	2,506,800.20
Total unexpended plant	2,715,665.98	2,506,800.20	Total unexpended plant	2,715,665.98	2,506,800.20
Renewal and replacements:			Renewals and replacements:		
Cash (Notes 2 and 3)	4,872,331.44	4,070,633.03	Liabilities:		
Accounts receivable	-	2,310.00	Accounts payable	117,523.84	7,728.49
			Fund balance:		
			Unrestricted	4,754,807.60	4,065,214.54
Total renewals and replacements	4,872,331.44	4,072,943.03	Total renewals and replacements	4,872,331.44	4,072,943.03
Investment in plant:			Investment in plant:		
Land	235,023.00	208,500.00	Fund balance:		
Buildings	13,603,825.68	13,603,825.68	Net investment in plant	24,717,569.10	24,506,134.51
Improvements other than buildings	1,797,924.12	1,797,924.12			
Equipment	6,171,644.66	6,098,886.24			
Library holdings	2,847,606.00	2,762,261.00			
Construction in progress	61,545.64	34,737.47			
Total investment in plant	24,717,569.10	24,506,134.51	Total investment in plant	24,717,569.10	24,506,134.51
Total plant funds	\$ 32,305,566.52	\$ 31,085,877.74	Total plant funds	\$ 32,305,566.52	\$ 31,085,877.74
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds		
Cash (Notes 2 and 3)	\$ 776,115.42	\$ 687,716.65	Accounts payable	\$ -	\$ 4,471.72
			Deposits held in custody for others	776,115.42	683,244.93
Total nonfoundation funds	776,115.42	687,716.65	Total nonfoundation funds	776,115.42	687,716.65
Foundation funds:			Foundation funds:		
Cash (Notes 2 and 3)	672,630.69	385,624.64	Accounts payable	6,933.50	6,483.70
Investments (Note 4)	161,066.02	136,356.46	Deposits held in custody for foundation	839,697.74	520,294.24
Other assets	12,934.53	4,796.84			
Total foundation funds	846,631.24	526,777.94	Total foundation funds	846,631.24	526,777.94
Total agency funds	\$ 1,622,746.66	\$ 1,214,494.59	Total agency funds	\$ 1,622,746.66	\$ 1,214,494.59

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
VOLUNTEER STATE COMMUNITY COLLEGE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>							
Unrestricted current fund revenues	\$ 19,822,393.01	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	2,115,350.56	-	-	-	-	-	-
State appropriations	-	89,700.00	-	-	55,290.56	-	-
Federal grants and contracts	-	2,636,479.47	-	-	-	-	-
State grants and contracts	-	12,845.69	-	-	-	-	-
Local grants and contracts	-	-	-	-	-	-	26,523.00
Private gifts, grants and contracts	-	107,943.06	-	1,958.25	-	-	-
Investment income	-	1,092.60	252.38	1,323.38	145,606.69	218,323.43	-
Interest on loans receivable	-	-	765.27	-	-	-	-
Endowment income	-	3,013.45	-	-	-	-	-
Expended for plant facilities (including \$533,970.34 charged to current fund expenditures)	-	-	-	-	-	-	917,005.84
Reduction in doubtful accounts	-	-	1,102.60	-	-	-	-
Equipment use charges	-	-	-	-	-	150,000.00	-
Other additions	-	242.25	-	-	-	-	-
Total revenues and other additions	21,937,743.57	2,851,316.52	2,120.25	3,281.63	200,897.25	368,323.43	943,528.84
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>							
Educational and general expenditures	18,613,370.69	2,950,919.98	-	-	-	-	-
Auxiliary enterprise expenditures	1,864,799.74	-	-	-	-	-	-
Indirect costs recovered	-	8,519.43	-	-	-	-	-
Refunded to grantors	-	4,785.50	4,443.00	-	-	-	-
Administrative and collection costs	-	-	1,200.00	-	-	-	-
Expended for plant facilities	-	-	-	-	53,399.93	329,635.57	-
Expended for noncapital items	-	-	-	-	70,838.50	382,746.82	-
Disposal of plant facilities	-	-	-	-	-	-	5,308.00
Library holdings revaluation	-	-	-	-	-	-	47,235.02
Total expenditures and other deductions	20,478,170.43	2,964,224.91	5,643.00	-	124,238.43	712,382.39	52,543.02

TENNESSEE BOARD OF REGENTS  
VOLUNTEER STATE COMMUNITY COLLEGE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
<u>TRANSFERS AMONG FUNDS-ADDITIONS</u> <u>(DEDUCTIONS)</u>							
Nonmandatory transfers:							
Unrestricted current funds	493.76	-	(493.76)	-	-	-	-
Unexpended plant	(122,000.00)	-	-	-	122,000.00	-	-
Renewals and replacements	(1,033,652.02)	-	-	-	-	1,033,652.02	-
Total transfers	(1,155,158.26)	-	(493.76)	-	122,000.00	1,033,652.02	-
Net increase (decrease) for the year	304,414.88	(112,908.39)	(4,016.51)	3,281.63	198,658.82	689,593.06	890,985.82
Fund balances at beginning of year	936,404.51	206,239.34	4,460.75	74,889.86	2,506,800.20	4,065,214.54	24,506,134.51
Cumulative effect of change in accounting principle (Note 11)	-	-	-	-	-	-	(679,551.23)
Fund balances at beginning of year as restated	936,404.51	206,239.34	4,460.75	74,889.86	2,506,800.20	4,065,214.54	23,826,583.28
Fund balances at end of year	<u>\$ 1,240,819.39</u>	<u>\$ 93,330.95</u>	<u>\$ 444.24</u>	<u>\$ 78,171.49</u>	<u>\$ 2,705,459.02</u>	<u>\$ 4,754,807.60</u>	<u>\$ 24,717,569.10</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
VOLUNTEER STATE COMMUNITY COLLEGE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>							
Unrestricted current fund revenues	\$ 17,960,051.03	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	1,974,929.63	-	-	-	-	-	-
State appropriations	-	92,771.00	-	-	121,947.14	-	-
Federal grants and contracts	-	2,103,147.86	-	-	-	-	-
State grants and contracts	-	18,347.36	-	-	-	-	-
Private gifts, grants and contracts	-	193,819.78	-	2,010.00	-	-	-
Investment income	-	990.55	218.05	1,098.48	106,749.36	178,976.86	-
Interest on loans receivable	-	-	840.27	-	-	-	-
Endowment income	-	2,884.19	-	-	-	-	-
Expended for plant facilities (including \$758,274.28 charged to current fund expenditures)	-	-	-	-	-	-	1,181,459.26
Reduction in doubtful accounts	-	-	2,838.83	-	-	-	-
Library holdings revaluation (Note 10)	-	-	-	-	-	-	1,052,431.58
Other additions	-	684.20	-	-	-	-	10,240.00
<b>Total revenues and other additions</b>	<b>19,934,980.66</b>	<b>2,412,644.94</b>	<b>3,897.15</b>	<b>3,108.48</b>	<b>228,696.50</b>	<b>178,976.86</b>	<b>2,244,130.84</b>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>							
Educational and general expenditures	17,555,530.06	2,469,383.60	-	-	-	-	-
Auxiliary enterprise expenditures	1,875,243.81	-	-	-	-	-	-
Indirect costs recovered	-	7,695.63	-	-	-	-	-
Refunded to grantors	-	1,221.07	-	-	-	-	-
Administrative and collection costs	-	-	1,200.00	-	-	-	-
Expended for plant facilities	-	-	-	-	297,316.34	125,868.64	-
Expended for noncapital items	-	-	-	-	81,885.30	280,413.49	-
Disposal of plant facilities	-	-	-	-	-	-	249,214.98
<b>Total expenditures and other deductions</b>	<b>19,430,773.87</b>	<b>2,478,300.30</b>	<b>1,200.00</b>	<b>-</b>	<b>379,201.64</b>	<b>406,282.13</b>	<b>249,214.98</b>

TENNESSEE BOARD OF REGENTS  
VOLUNTEER STATE COMMUNITY COLLEGE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
<u>TRANSFERS AMONG FUNDS-ADDITIONS</u>							
<u>(DEDUCTIONS)</u>							
Nonmandatory transfers:							
Unexpended plant	(714,416.00)	-	-	-	714,416.00	-	-
Renewals and replacements	(580,107.38)	-	-	-	(362,875.00)	942,982.38	-
Total transfers	(1,294,523.38)	-	-	-	351,541.00	942,982.38	-
Net increase (decrease) for the year	(790,316.59)	(65,655.36)	2,697.15	3,108.48	201,035.86	715,677.11	1,994,915.86
Fund balances at beginning of year (Note 12)	1,726,721.10	271,894.70	1,763.60	71,781.38	2,305,764.34	3,349,537.43	22,511,218.65
Fund balances at end of year	<u>\$ 936,404.51</u>	<u>\$ 206,239.34</u>	<u>\$ 4,460.75</u>	<u>\$ 74,889.86</u>	<u>\$ 2,506,800.20</u>	<u>\$ 4,065,214.54</u>	<u>\$ 24,506,134.51</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
VOLUNTEER STATE COMMUNITY COLLEGE  
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1998

	Unrestricted	Restricted	Total
<b>REVENUES</b>			
Tuition and fees	\$ 6,319,093.20	\$ -	\$ 6,319,093.20
State appropriations	13,142,700.00	89,700.00	13,232,400.00
Federal grants and contracts	13,999.22	2,646,188.42	2,660,187.64
State grants and contracts	2,035.21	12,010.48	14,045.69
Private gifts, grants and contracts	1,588.00	200,796.08	202,384.08
Sales and services of educational activities	114,403.98	-	114,403.98
Sales and services of auxiliary enterprises	2,115,350.56	-	2,115,350.56
Endowment income	-	2,225.00	2,225.00
Investment income	179,347.27	-	179,347.27
Other sources	49,226.13	-	49,226.13
Total current revenues	21,937,743.57	2,950,919.98	24,888,663.55
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general expenditures:			
Instruction	10,523,942.18	556,208.64	11,080,150.82
Public service	51,701.37	5,515.20	57,216.57
Academic support	1,471,742.62	5,861.72	1,477,604.34
Student services	2,735,992.97	54,031.09	2,790,024.06
Institutional support	2,290,371.99	2,493.86	2,292,865.85
Operation and maintenance of plant	1,255,413.21	1,589.96	1,257,003.17
Scholarships and fellowships	284,206.35	2,325,219.51	2,609,425.86
Total educational and general expenditures	18,613,370.69	2,950,919.98	21,564,290.67
Nonmandatory transfers:			
Loan funds	(493.76)	-	(493.76)
Unexpended plant	122,000.00	-	122,000.00
Renewals and replacements	1,003,000.00	-	1,003,000.00
Total educational and general expenditures and transfers	19,737,876.93	2,950,919.98	22,688,796.91
Auxiliary enterprises:			
Expenditures	1,864,799.74	-	1,864,799.74
Nonmandatory transfer:			
Renewals and replacements	30,652.02	-	30,652.02
Total auxiliary enterprises	1,895,451.76	-	1,895,451.76
Total expenditures and transfers	21,633,328.69	2,950,919.98	24,584,248.67
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)</b>			
Deficit of restricted receipts over transfers to revenues	-	(99,603.46)	(99,603.46)
Refunded to grantors	-	(4,785.50)	(4,785.50)
Indirect costs recovered	-	(8,519.43)	(8,519.43)
Net increase (decrease) in fund balance	\$ 304,414.88	\$ (112,908.39)	\$ 191,506.49

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
VOLUNTEER STATE COMMUNITY COLLEGE  
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
<b>REVENUES</b>			
Tuition and fees	\$ 5,598,115.93	\$ -	\$ 5,598,115.93
State appropriations	11,936,500.00	92,771.00	12,029,271.00
Federal grants and contracts	12,843.66	2,152,616.53	2,165,460.19
State grants and contracts	9,481.97	18,824.90	28,306.87
Private gifts, grants and contracts	16,484.25	202,112.17	218,596.42
Sales and services of educational activities	117,207.47	-	117,207.47
Sales and services of auxiliary enterprises	1,974,929.63	-	1,974,929.63
Endowment income	-	3,059.00	3,059.00
Investment income	231,654.79	-	231,654.79
Other sources	37,762.96	-	37,762.96
Total current revenues	19,934,980.66	2,469,383.60	22,404,364.26
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general expenditures:			
Instruction	10,019,486.26	359,552.17	10,379,038.43
Public service	53,904.36	-	53,904.36
Academic support	1,306,080.70	13,687.91	1,319,768.61
Student services	2,465,919.08	61,252.63	2,527,171.71
Institutional support	2,158,167.45	3,610.39	2,161,777.84
Operation and maintenance of plant	1,281,027.09	544.13	1,281,571.22
Scholarships and fellowships	270,945.12	2,030,736.37	2,301,681.49
Total educational and general expenditures	17,555,530.06	2,469,383.60	20,024,913.66
Nonmandatory transfer:			
Renewals and replacements	554,700.00	-	554,700.00
Total educational and general expenditures and transfers	18,110,230.06	2,469,383.60	20,579,613.66
Auxiliary enterprises:			
Expenditures	1,875,243.81	-	1,875,243.81
Nonmandatory transfers:			
Unexpended plant	714,416.00	-	714,416.00
Renewals and replacements	25,407.38	-	25,407.38
Total auxiliary enterprises	2,615,067.19	-	2,615,067.19
Total expenditures and transfers	20,725,297.25	2,469,383.60	23,194,680.85
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)</b>			
Deficit of restricted receipts over transfers to revenues	-	(56,738.66)	(56,738.66)
Refunded to grantors	-	(1,221.07)	(1,221.07)
Indirect costs recovered	-	(7,695.63)	(7,695.63)
Net decreases in fund balance	\$ (790,316.59)	\$ (65,655.36)	\$ (855,971.95)

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents  
Volunteer State Community College  
Notes to the Financial Statements  
June 30, 1998, and June 30, 1997**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The college is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**Basis of Presentation**

The financial statements of the college have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

**Basis of Accounting**

The financial statements of the college have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as expenditures, for normal replacement of movable equipment and library holdings, and nonmandatory transfers, for all other cases.

**Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the



**Tennessee Board of Regents  
Volunteer State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include bookstore, cafeteria, and vending operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used.

**Tennessee Board of Regents  
Volunteer State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties and, (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

**LGIP Deposit–Capital Projects**

Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

**Inventories**

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average-cost or first-in, first-out basis.

**Checks Payable**

These amounts represent the sum of checks written in excess of the college's checking account balance. The college monitors cash balances on a daily basis and transfers funds as necessary to the college's checking account to maximize interest income.

**Compensated Absences**

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted

**Tennessee Board of Regents  
Volunteer State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

**Allocation for Working Capital**

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

**Plant Assets**

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

**Volunteer State Community College Foundation**

The college is the sole beneficiary of the Volunteer State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

**NOTE 2. CASH**

This classification includes demand deposits and petty cash on hand. At June 30, 1998, cash consisted of \$60,301.19 in bank accounts, \$6,740.00 of petty cash on hand, and \$11,332,725.11 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1997, cash consisted of \$48,983.96 in bank accounts, \$6,740.00 of petty cash on hand, and \$10,424,977.94 in the State of Tennessee Local Government Investment Pool.

**Tennessee Board of Regents  
Volunteer State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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**NOTE 3. DEPOSITS**

The bank balances of certain deposits including accrued interest as of the balance sheet dates were entirely insured or collateralized with securities held by the college's agent in the college's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

The college's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

**NOTE 4. INVESTMENTS**

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Volunteer State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. At June 30, 1998, all investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. At June 30, 1997, investments are valued at cost or, in the case of gifts, at fair value on the date of receipt.

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered

**Tennessee Board of Regents  
Volunteer State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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investments for which the securities are held by the counterparty's trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name

<u>June 30, 1998</u>	<u>Fair Value</u>
Category 1:	
Corporate stocks	\$ 482.00
Categories 2 and 3	-
Investments not susceptible to credit risk categorization:	
Mutual funds	<u>160,584.02</u>
Total investments on the balance sheet	<u><u>\$161,066.02</u></u>

<u>June 30, 1997</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Categories 1, 2, and 3	\$ -	\$ -
Investments not susceptible to credit risk categorization:		
Mutual funds	<u>136,356.46</u>	<u>140,935.49</u>
Total investments on the balance sheet	<u><u>\$136,356.46</u></u>	<u><u>\$140,935.49</u></u>

**NOTE 5. PLANT FUND ENCUMBRANCES**

Plant fund encumbrances outstanding at June 30, 1998, amounted to \$23,136.04 for unexpended plant and \$35,575.07 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1997, amounted to \$1,000.00 for unexpended plant and \$142,745.95 for renewals and replacements.

**Tennessee Board of Regents  
Volunteer State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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**NOTE 6. PENSION PLANS**

**A. Defined Benefit Plan**

During the year ended June 30, 1997, the college implemented GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*. In accordance with that statement, at transition it was determined that a pension liability or asset did not exist for this plan.

**Tennessee Consolidated Retirement System**

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202, extension 139.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 3.65% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 1998, 1997, and 1996, were \$234,170.78, \$461,623.49, and \$452,574.99. Contributions met the requirements for each year.

**B. Defined Contribution Plans**

**Optional Retirement Plans (ORP)**

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable

**Tennessee Board of Regents  
Volunteer State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans for the year ended June 30, 1998, was \$358,054.13, and for the year ended June 30, 1997, was \$311,398.62. Contributions met the requirements for each year.

**NOTE 7. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 8. INSURANCE-RELATED ACTIVITIES**

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1998, the scheduled coverage for the college was \$28,438,100 for buildings and \$11,681,400 for contents. At June 30, 1997, the scheduled coverage was \$28,438,100 for buildings and \$11,297,500 for contents.

**Tennessee Board of Regents  
Volunteer State Community College  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

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The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$4,007,271.26 at June 30, 1998, and \$3,564,997.16 at June 30, 1997.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$32,989.50 and for personal property were \$128,473.33 for the year ended June 30, 1998. The amounts



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for the year ended June 30, 1997, were \$35,010.00 and \$109,380.08. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1998, outstanding commitments under construction contracts totaled \$501,045.08 for the former library renovation, library equipment, and the new health sciences building projects, all of which will be funded by future state capital outlay appropriations.

**NOTE 10. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES**

At June 30, 1997, the value for library books was increased from \$20 per volume to \$48 per volume, and the standardized values for other library holdings were also increased/decreased by various amounts. As a result of the revaluation, library holdings and net investment in plant, under the investment in plant fund subgroup, increased by \$1,160,622 at June 30, 1997.

**NOTE 11. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from \$500 to \$1,000. As a result of the change, equipment decreased by \$679,551.23. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance.

**NOTE 12. PRIOR-YEAR RESTATEMENT**

The college implemented GASB Statement 16, *Accounting for Compensated Absences*. As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by \$720,883.53.

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**NOTE 13. YEAR 2000 DISCLOSURES**

The Year 2000 Issue (Y2K) arises because most computer software programs allocate two digits to the data field for year on the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and the computer software, and could affect both the ability to enter data into the computer programs and the ability of such programs to correctly process data.

Volunteer State Community College (VSCC) has established a Y2K Coordinator to facilitate Y2K remediation efforts. VSCC has assessed the impact of Y2K on its computer systems and other electronic equipment. Computer systems are defined as both (1) programmed application systems that provide fiscal and administrative services and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. Other electronic equipment includes systems and devices other than traditional computer information systems that may utilize embedded chips in their operations.

VSCC has determined that certain computer systems are mission critical, certain are critical, and certain are supportive. Mission-critical computer systems are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent VSCC from fulfilling its mission. Critical computer systems are those for which there are manual alternatives, but VSCC would unlikely be able to fully or efficiently perform the functions manually because of the volume of manual activity that would be required. Supportive computer systems are those for which there are manual alternatives and VSCC expects to be able to perform such functions manually, if necessary.

VSCC has identified three mission-critical computer application systems—the Financial Records Systems (FRS), the Human Resource System (HRS), and the Student Information System (SIS). FRS and SIS have completed the validation/testing stage. This stage is defined as validating and testing the changes made during the remediation stage. HRS is in the assessment and remediation stages. The “assessment stage” is defined as identifying the systems and components for which year 2000 compliance work is needed. The “remediation stage” is defined as making changes to systems and equipment. We expect HRS to complete the validation/testing stage by June 1, 1999.

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VSCC's mid-level computer system provides the supporting computer systems infrastructure upon which VSCC's application systems reside and are processed. The mid-level system represents multiple hardware and software components to include a central processor, workstations, and network operating system. VSCC determined that these components are currently in the validation/testing stage.

VSCC identified other electronic equipment items as critical to conducting operations. VSCC determined that these systems are currently in the validation/testing stage.

VSCC's Y2K initiatives did not result in the commitment of significant financial resources as of the end of VSCC's reporting period. VSCC is not aware of any circumstances or costs to achieve Y2K compliance that will have a negative impact on the operations or financial status of the institution.